SIFMA
Securities Industry and
Financial Markets Association

February 6, 2009

The Honorable Ben Bernanke
Chairman
Board of Governors of the Federal Reserve System
Washington, DC 20551

Dear Mr. Chairman:

The Securities Industry and Financial Markets Association (SIFMA)[1] applauds the bold steps the Federal Reserve has taken to put our financial markets back on track. We believe further action is necessary to help restore liquidity and functioning in the municipal and auction rate securities markets. It is crucial to stabilize these critical markets in order to help state and local governments, who are also facing budgetary and fiscal constraints, so they may meet the financing needs of their communities. We would appreciate the opportunity to meet with you to discuss the current market conditions and possible solutions.

I. Municipal Issuers

The municipal bond market is experiencing a significantly low level of liquidity. State and local issuers are facing a critical need for reliable long-term credit enhancement, making it difficult to bring issues to market. The municipal securities market is also facing a serious dislocation between supply and demand. Municipalities are finding that even full faith and credit general obligation bonds cannot find investors. In some instances, due to the lack of availability of liquidity facilities for short-term money market fund eligible debt, cities and states have been forced to replace their variable rate municipal securities with more expensive, long-term, fixed-rate debt. This change in the supply of municipal bonds drives up rates on long-term munis, hurting municipal bond issuers and raising costs for taxpayers. In other cases, municipal issuers have simply been unable to find buyers in the short- and long-term markets for their debt issues.

The current conditions in the municipal market have severely limited the capital available to build roads, bridges, schools and other necessary infrastructure. We ask you to consider the following options to restore liquidity, adequately address the need for reliable long-term credit enhancement, and resolve the serious dislocation between supply and demand in the municipal bond market:

- Develop a commercial paper purchase facility for state and local governments, similar to the Commercial Paper Funding Facility (CPFF).
- Develop a federal liquidity facility to write or guarantee letters of credit and standby bond purchase agreements for state and local governmental issuers of debt.

[1] SIFMA brings together the shared interests of more than 650 securities firms, banks, and asset managers. SIFMA's mission is to promote policies and practices that work to expand and perfect markets, foster the development of new products and services, and create efficiencies for member firms, while preserving and enhancing the public's trust and confidence in the markets and the industry. SIFMA works to represent its members' interests locally and globally. It has offices in New York, Washington, D.C., and London. Its associated firm, the Asia Securities Industry and Financial Markets Association, is based in Hong Kong. More information may be found on our website: http://www.sifma.org.

- Enhance the Federal Reserve Board's Asset Backed Commercial Paper Conduit facility program to finance outstanding FFELP loans to assist the freeze in the market for student loan bonds.

II. Regional Broker-Dealers

As the credit crisis spread into other markets, demand for auction rate securities (ARS) halted, resulting in "failed" auctions and leaving investors unable to sell their ARS. Today most ARS auctions continue to fail and many thousands of investors are holding securities which offer no liquidity and cannot be sold. As a result, many state and local issuers, including state student loan financing authorities, have faced steep increases in their cost of capital. The failed auctions have also threatened the viability of small and regional broker-dealer firms. These small and regional firms are often a source of necessary financing for projects in their local communities. Some broker-dealers have purchased the auction rate securities from their clients, but this often just transfers illiquidity problems to the dealers who are facing their own liquidity and balance sheet issues. Other broker-dealers are facing capital limitations as a result of the continuing credit crunch. If these firms are required to reimburse investors for the auction rate securities, many would be forced to go out of business, resulting in lost jobs and revenues in some of our already struggling communities.

It is essential that we restore liquidity in the auction rate securities market to help state and local issuers, retail and institutional investors, and small and regional firms. We respectfully request you consider:

- Developing a federal liquidity facility to write standby letters of credit for ARPS.
- Developing a lending facility to repurchase auction rate securities.
- Fast-tracking applications for regional broker-dealers to become bank holding companies, so they may access the discount window.
- Allowing ARPS to be used as collateral at the discount window.
- Clarifying that Variable Rate Demand Preferred Shares (VRDP) can be presented at the discount window to secure loans.

Again, we would greatly appreciate the opportunity for members of our Municipal Division and our Regional and Small Firms Committees to meet with you to discuss the current conditions in the municipal and auction rate securities markets and potential solutions to restoring these markets. Please do not hesitate to call Scott DeFife, Senior Managing Director, Government Affairs, at 202.962.7300 with any questions or if we can be of assistance in this area.

Sincerely,

T. Timothy Ryan, Jr.
President and CEO